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SUBJECT: PROGRESS IN THE NIGERIAN HOUSING SECTOR

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11. Summary: During a recent visit of an Overseas Private Investment Corporation (OPIC) team to Nigeria, government officials (GON) estimated that the housing deficit is between 14-16 million housing units, with an even larger financing gap of approximately 44 trillion naira. Nigeria's housing needs are enormous and the GON is seeking private sector funding from local and international players.

President Obasanjo's administration has made progress by proposing and implementing housing reforms aimed at creating an environment to close these massive gaps. Reforms address several key areas - land tenure and titling, foreclosure, and securitization, but the National Assembly (NA) has yet to pass the bills. Experts note that opportunities abound in the housing sector, however, the absence of a legal framework capacity in secondary mortgage market operations, and the looming uncertainty regarding the forthcoming general elections is preventing the flow of foreign investment into the sector. End Summary.

OPIC ASSESSMENT TEAM

12. In November, Debra Erb, Cindy Shepard, Jim Williams, and Anthony Ieronimo, OPIC representatives visited Abuja to analysis areas of opportunity within the Nigerian housing sector. OPIC met with policy makers and private sector experts from the Federal Mortgage Bank of Nigeria (FMBN), Securities and Exchange Commission (SEC) and Investment Banking and Trust Company (IBTC).

GOVERNMENT HOUSING LEGISLATION MOVING FORWARD

13. Tanimu Yakubu, Managing Director of the FMBN, reported that the housing deficit in Nigeria is between 14-16 million housing units, with an even larger financing gap of approximately 44 trillion naira. According to Yakubu, housing finance accounts for a "dismal" 0.38 percent of Nigeria's Gross Domestic Product (GDP). He contended that it is capable of contributing more than 40 percent to GDP. Yakubu said the housing gap is so large that it is virtually impossible for the GON and private sector to narrow. He encouraged foreign investment in the sector because the returns would be high. He noted that investment opportunities existed in housing estate development; primary mortgage financing; secondary mortgage and capital market mortgage operations; and building materials production.

14. Yakubu underscored that the GON is putting into place the enabling legal framework to encourage investment in the housing sector. He said that the GON discovered that no appreciable progress was possible if foreclosure and securitization laws were not enacted. Nine bills have been sent to the NA for passage to codify the housing sector reforms. Included in the nine bills are the National Housing Trust Fund Act, the FMBN Act, and foreclosure and securitization reforms. Yakubu commented that the NA will expedite passage of the foreclosure and securitization bills.

FMBN REFORMS

15. Yakubu said that the FMBN will float a 100 billion naira mortgage-backed bond in the local capital market either before the end of the year or by early 2007. The proceeds from this bond will be used to finance additional housing. One indirect benefit of this mortgaged backed bond would be civil servants whose government issued housing is being phased out. In place of issued housing would be an allotment that civil servants would be encouraged to utilize for housing purchases. . He lamented that the absence of mortgage insurance has delayed the bond floating, but encouraged OPIC to consider investing in mortgage insurance.

LAND USE ACT AND OTHER MAJOR OBSTACLES TO MORTGAGES

16. Yakubu explained that the Land Use Act of 1978 is a major obstacle to creating mortgages in Nigeria. (NOTE: The Act vests all land in the government, and requires a state governor's approval before land transactions can be concluded. END NOTE) He said the Act is embedded in the constitution and it would be difficult but not impossible to amend. Amendment would require a two-thirds majority in the NA and in each of the 36 state houses of assembly for approval.

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17. Yakubu surmised that Nigerian public attitudes are possibly a bigger problem than the Act. He cited the example of the ongoing land reforms in the Federal Capital Territory (FCT). The FCT in Abuja has led the nation in demolition of illegal structures and computerization of the land registry. FCT Minister el-Rufai's actions have led to a boom in housing construction. Yakubu reported that the FCT accounts for over 60 percent of total new housing development nationwide. He juxtaposed this situation in the FCT with recent history when there was widespread land racketeering and other illegal dealings. He contended that if the FCT's action could be replicated in other parts of the country, housing development and mortgages could increase before the amendment of the Act.

NEEDED FORECLOSURE REFORMS

18. Yakubu noted that the absence of a foreclosure law discourages mortgages. He said most Nigerian judges typically support tenants in disputes with owners and that these judgments would continue without a regulatory framework for foreclosures. Yakubu supported the FCT's suggestion to the Chief Justice of the Nigerian Supreme Court to create special courts in Abuja for foreclosure cases to expedite decisions, and provide more balanced decisions. Yakubu suggested that U.S. expertise in foreclosure laws would be valuable to Nigerian judges and study trips to the U.S would be encouraged.

SECURITIES AND EXCHANGE COMMISSION REFORMS

19. Musa Al-Faki, Director General of the SEC, reported that capital market reforms are ongoing and the development of a secondary mortgage market is in the offing. He said that there is inter-agency collaboration between the SEC, FMBN, and the Central Bank of Nigeria (CBN), aimed at creating a secondary mortgage

market. The SEC has agreed to concessions on listing and other capital market fees to encourage interested operators. He also mentioned that some capital market operators have expressed interest in establishing real estate investment trusts (REITs), although a legal framework is awaiting final approval by the Minister of Finance. Al-Faki underscored that Nigerian regulators lacked expertise regarding derivatives, securitization, and newer capital market instruments. He suggested study tours for SEC staff to meet with regulators in other jurisdictions where such instruments are actively traded.

MAJOR IMPROVEMENTS TO PENSION FUNDS

¶10. Gbitse Barrow, IBTC Head Pension Manager in Abuja, said that the Pension Act of 2004 has led to dramatic changes in pension administration. At the end of October 2006, total pension assets in the country were 600 billion naira with 70 billion naira from federal government workers. Barrow commented that this is a total departure from the former system when government pensions were not properly funded. Also, he said that the pension funds are liquid and looking for more financial instruments for investments. Although pension funds are expected to be sources of long term funds, he said, the administrators of these pension funds have to be careful that the instruments they invest in have minimal downside risks.

¶11. Barrow contended that Nigerian pension fund liquidity and the guidelines for investment as stipulated in the Pension Act should be amended to allow for investment in mortgage-backed-securities. He opined that pension funds will invest in mortgage backed securities if the returns are reasonable. However, he suggested that because mortgage backed securities are new to Nigerian financial markets it would be better to first concentrate on increasing the awareness among the investing public and build the capacity of financial market operators.

COMMENT

¶12. Experts agree that the average Nigerian seeks home ownership, but current housing sector conditions make it difficult. The majority of commercial banks only lend for short periods and at very high interest rates, constricting the pool of applicants. The FMBN's program offering long term loans at lower rates than commercial banks has been successful, but cannot satisfy demand. As

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a result, most Nigerians pay rent, with the majority of landlords requiring one, two and sometimes three years of rent as an advance. This large source of funds could be better mobilized and utilized to secure loans for long term financing.

¶13. There are real areas of opportunity in the housing sector, and if several proposed bills pass the NA before the April 2007 elections, the housing sector could be poised for a revolution. Most policy makers remain upbeat that the bills will be passed soon.

CAMPBELL